



Ageing and its implications for the labour market and fiscal policy

Findings from the PL Country Report

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Country reports / European Semester

- European Semester: framework for the coordination of economic policies between the countries of the European Union; annual cycle
- Country reports published on 22 February 2017
- Commission currently preparing its proposal for Country Specific Recommendation for the Council
- PL country report in particular covers various aspects of ageing

2016 Recommendation (CSR2)

- **Ensure the sustainability and adequacy of the pension system** (...) by starting to reform the preferential pension arrangements, removing obstacles to more permanent types of employment (...)
- CSR2 progress assessment: no progress, key measure in the opposite direction

Plan of the presentation – main messages

- Shrinking working age population → negative impact on labour force and potential GDP growth
- Importance of encouraging labour force participation
- Future pension adequacy an issue – lower retirement age likely to worsen it significantly
- Fiscal sustainability risks stemming from: lower GDP growth potential & questions on adequacy of future pensions

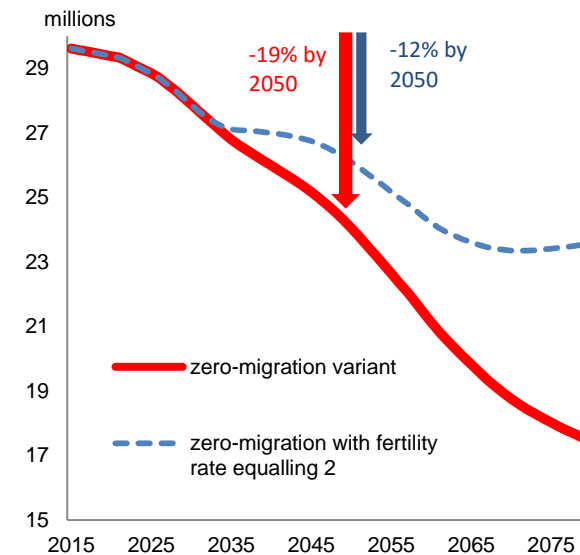
Special pension regimes

- System for farmers – KRUS:
 - Low level of benefits
 - Heavily subsidised - fiscal costs
 - Adds to barriers to inter-sectoral mobility; incentives for informal employment
- System for miners:
 - High level of benefits
 - Heavily subsidised - fiscal costs
 - Impact on sector restructuring?

Shrinking labour force

- Increasing labour force participation key
- Room for improvement especially for selected groups

Population aged 15-74



Labour market participation of older workers

- Despite strong current performance, the labour market faces constraints as regards participation
- Employment rates lower than the EU average: [...]older people
- For older workers this is linked to low skills and educational attainment levels; low female statutory retirement also matters

Lower statutory retirement age

- Several recent measures may further reduce labour force participation.
 - Lowering the statutory retirement age in late 2017 is expected to lead to some older workers withdrawing from the labour force.

Possible measures – labour market

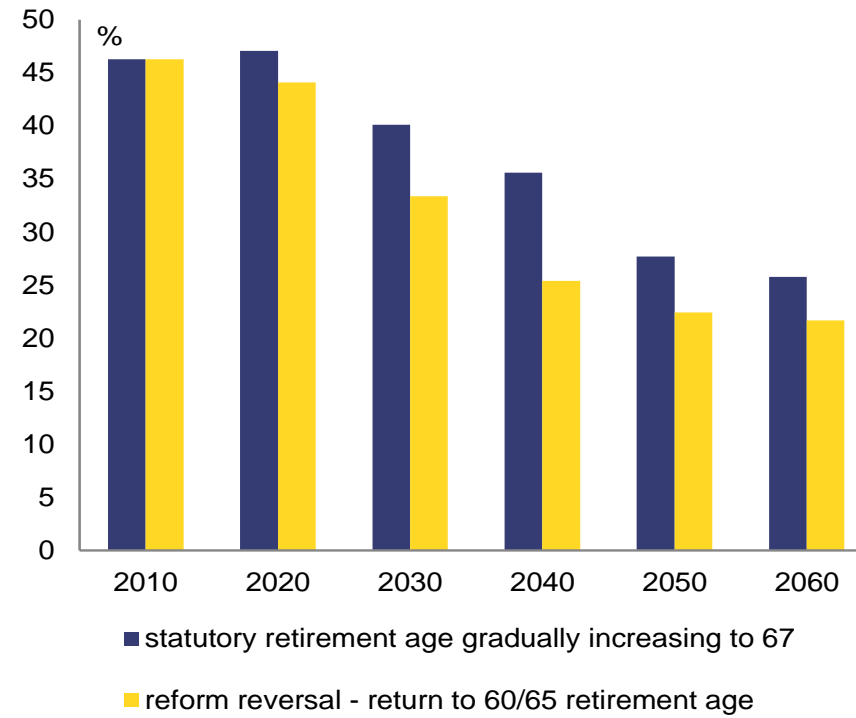
- Fertility support measures – very long run only
- Incentives for working longer
- Migration plays an increasingly important role in the Polish labour market.
 - Temporary immigration, mostly from Ukraine, and to a lesser extent from Belarus and other countries, is an increasingly important phenomenon

Pension adequacy

- Currently pensions effective protection against poverty
- Bound to fall substantially in the future (even with retirement age at 67)
- Benefit levels depends on
 1. age at retirement
 2. number of years contributing and contributed amounts
 - not only salary levels but also types of contracts matter – pension rationale for limiting excessive use of non-standard contracts

Pension replacement rates – different retirement age scenarios

- What are the implications of replacement rates at 20-25%?



Minimum pensions

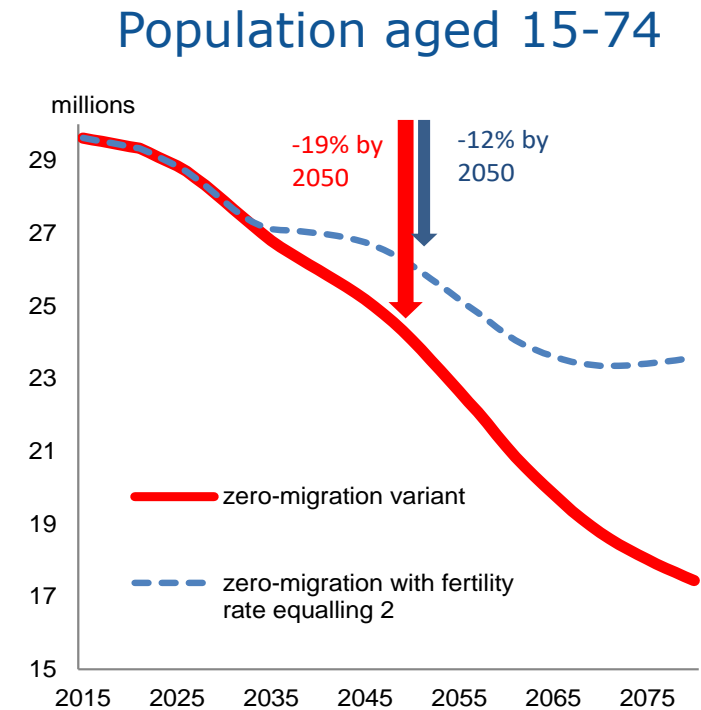
- Very few people receive them at present
- Future role depends on indexation (political decision):
 - Low indexation → minimum pensions likely to fall below poverty lines
 - Higher indexation (e.g. maintaining the relation to the minimum / average wage) → a significant share of all retired with the minimum pension (e.g. ~ half of workers, especially women)

Selected macroeconomic and fiscal aspects of ageing

- Potential growth
- Fiscal sustainability of pension systems

Potential growth – the role of labour

- Determined by available labour, capital and productivity
- Labour contribution to drag growth potential for decades
- **↑** Participation & immigration as chances
- Quantity of labour likely to fall
- Productivity matters



Retirement age changes matter for long-term growth

- Lowering of the statutory retirement age &
- Increasing the school starting age...
- ... may mean that (some) women will work 8 years less
- It is in the range of $\frac{1}{5}$ – $\frac{1}{4}$ of work careers

The fiscal outlook as of 2015 Ageing report

- Gross public pension expenditure declining slightly
- Drivers: effective retirement age & rapidly falling adequacy counterbalance ageing

The fiscal outlook – another view

- Pension expenditure likely to be higher
- Lower statutory age in itself adding some 0.5% of GDP per year up to 2050
- Minimum pensions: how much and how many eligible?
- Adequacy of pensions → sustainability of the pension system

Challenges – instead of conclusion

- How to significantly lengthen working careers?
- How to increase pension contributions?
- Migration strategy?
- Skills strategy?
- Public trust in the pension system – the quality of public debate on ageing and its implications